

## LATIN AMERICA AND THE CARIBBEAN

**The Development Challenge:** Over the past several years, the Latin America and Caribbean (LAC) region, encompassing Central and South America and the Caribbean, has faced increasing development challenges that threaten the national security and economy of the United States. Contracting economic growth rates, extensive poverty, unemployment, skewed income distribution, crime and lawlessness, a thriving narcotics industry and a deteriorating natural resource base continue to undermine the stability of the region. The risks of HIV/AIDS and drug-resistant tuberculosis on our borders also threaten the population of the United States. Civil unrest due to poor economic conditions threatens countries in Central and South America while political instability in Colombia, Venezuela, and Haiti continues unabated. In the recent past, natural disasters have struck LAC with a vengeance with the Central America and the Caribbean sub-regions particularly hard hit.

According to the World Bank and the UN Economic Commission for Latin America and the Caribbean (ECLAC) the region's GDP has shrunk by approximately 0.8% in 2002, the worst economic performance since 1983. Inflation has edged up after eight years of steady decline. Mediocre economic performance has caused per capita income in LAC countries to decline significantly since 1998 while poverty has increased. Roughly 44% of Latin Americans are now poorer--up from 40% in 1999, while 20% suffer extreme poverty. Unemployment has risen to more than 9%, higher than the 1980s level. These woes have brought discontent and political turbulence, raising questions about the health of democracy in the region, investment priorities, social sector policies, and the benefits of a decade of liberal reforms.

In 2002 Argentina defaulted on its public debt repayment. Political conflict over the policies of President Chavez has seriously shaken Venezuela's economy, while drug-financed violence and drug trafficking continue to threaten Colombia's economy. Widespread corruption and poverty in Nicaragua is presenting the newly elected Bolanos administration with severe political challenges, as well. Due to decades of poor governance and dysfunctional institutions, Haiti continues to threaten regional stability on the island of Hispaniola serving an important launching pad for illegal migration to the Dominican Republic, the Bahamas, and the United States.

In 2001 external debt servicing in LAC accounted for a greater share of LAC countries' income and GDP compared to 2000. Data is not yet available for 2002, but it appears that the continuing hemispheric-wide economic downturn has reduced overall output, with Argentina, Uruguay and Venezuela experiencing a decline of 10%. The newly elected Presidents of Brazil and Ecuador are saddled with external debts equivalent to 60% and 80% of their countries' GNP respectively. For the entire LAC region, total debt service as a percentage of Gross National Income (GNI) approximated 8% in 2000, with Central America carrying a slightly higher debt burden at 8.4% of GNI and South America and the Caribbean at 8.1% and 7.6%. LAC's economy overall is expected to recover slightly in 2003. According to the regional forecast, the Argentine economy has "hit bottom" and is expected to grow about 2% in 2003. However, outputs in the economies of Uruguay, Venezuela and Paraguay will continue to contract. Chile, Mexico, Peru, and the Dominican Republic are expected to top the growth league in 2003 with expansion of 3% or more, assuming that the slowdown in the United States abates and strong growth resumes.

It is important not to portray the region in a single minded negative light. Positive forces are aligning as the democratic leaders of the Hemisphere have unanimously agreed to work toward the 2005 culmination of the Free Trade Area of the Americas (FTAA) agreement and Central America's leaders respond to President Bush's proposal to explore a sub-regional free trade agreement. It is encouraging that Mexico continues to reap the benefits of the North American Free Trade Agreement (NAFTA) and is forging ahead with economic liberalization. Similarly, Peru's economy grew by 4.5%, and Chile signed bilateral trade agreements with the European Union and the United States. President Bush has made the conclusion of the FTAA and Central America Free Trade Agreement (CAFTA) agreements the highest priority for the region and USAID's role is pivotal in meeting this presidential mandate. Trade and investment are essential

to economic growth *and* poverty reduction. Without an increase in trade and investment, the region's substantial development gains will be put at risk, and hemispheric stability could be threatened. The region's close proximity and ties with the United States, its leaders' commitment to free trade, and the President's trade initiatives underscore the importance of moving ahead at this time.

Continuing to view progress across the LAC region through an optimistic lens, the countries of the region have proclaimed their commitment to good governance through the Inter-American Democratic Charter and the Inter-American Convention Against Corruption of the Organization of American States (OAS). Nicaragua is striving to curb government corruption and other countries, such as Mexico, have also made important commitments to reduce official corruption. Elections conducted in Jamaica, Brazil, Colombia, Bolivia, and Ecuador were all judged to be free and fair.

While support for democracy remains solid in LAC, popular disillusionment is growing with those governments that cannot reduce poverty, corruption, crime, and violence. USAID must increase support for democracy in the LAC region. Good governance and an enabling environment that includes the rule of law are pre-conditions for the expansion of trade and economic growth. Although giant strides have been made (with the exception of Cuba every country in the Hemisphere has a democratic, constitutionally-installed government), many of these democracies remain fragile, and must make a concerted effort to reinforce the institutional building blocks of democracy. As more LAC countries face economic difficulties such as those experienced by Argentina, they have tended to shun free market reforms. This trend is unfortunate since a major cause of these problems has been the countries' own failure to eliminate inefficient systems that in turn hinder free market reforms.

An independent, efficient, and transparent judiciary is not only fundamental for a functioning democracy but also a prerequisite for increased external investment. USAID continues to support a broad range of institution-building efforts to strengthen judicial systems, the rule of law, and local governments; and to demonstrate that responsible regimes can deliver benefits to their citizens. Increased crime and violence is consistently ranked as citizens' primary concern next to unemployment. The rise of violence in Jamaica has become so paralyzing to the tourist driven economy that the private sector and civil society are joining to help combat this at the community level. Continued violence and drug trafficking in Colombia and organized crime syndicates operating in other LAC countries continue to pose a serious threat to regional stability and the fight against corruption.

In health, there has been significant progress in raising vaccination coverage, reducing or eliminating major childhood illnesses such as measles, and improving access to primary education. Also, because of USAID assistance, affected countries are more willing to discuss the HIV/AIDS problem. Thus, the social stigma attached to the disease is rapidly dissipating and prevention campaigns hold greater promise for lowering the incidence of the disease. At the same time, the Caribbean has the second highest rate of HIV/AIDS in the world, after sub-Saharan Africa. While steady progress is being made in lowering maternal mortality, and in applying proven cost-effective protocols for combating malaria, tuberculosis and other infectious diseases, rates remain unacceptably high and new strains of the causative organisms are increasingly resistant to treatment. Because diseases do not respect geographic boundaries, and due to the high numbers of legal as well as illegal immigrants traveling to the United States, USAID assistance to the LAC countries at the policy, institutional, and technical levels is considered critical to the health and security of the United States.

In education, the quality and relevance of primary and secondary schooling remain major problems. The proportion of students who complete secondary school is low, and those who do finish, lack adequate skills to compete in the workplace, creating a drag on the region's economies and its global competitiveness. USAID education and training programs aim to improve the poor state of public education systems where the majority of youth attend weak and

under-funded public schools and fail to acquire basic skills in mathematics, language, and science.

In the environment, quality of life is directly linked to the quality of the air we breathe and the water that flows in our rivers and streams. Widespread degradation leads to increased vulnerability to disasters and health problems, and conflicts over natural resources. This degradation is evident in the deterioration of many coastal reefs and the loss of productivity of many watersheds. The vast repository of flora and fauna that characterizes the LAC region must be well managed; otherwise potentially valuable organisms that may hold the secret for treating and curing important diseases may become lost forever.

**The USAID Program:** USAID understands that sustained development depends on market-based economies, sound monetary and fiscal policies, and freer trade. We are convinced that overall, our efforts in LAC are resulting in improving the enabling environment for positive and peaceful changes. But, we are mindful of the critical need to continue these efforts and build on our experiences in order to encourage further economic development in its many forms and processes. U.S. foreign policy priorities in the Western Hemisphere include strengthening democratic processes, promoting equitable trade-led economic growth, reducing poverty and fostering cooperation on issues such as drug trafficking and crime, and environmental protection. To address the myriad challenges in the LAC region, the United States is strongly committed to helping build an entire hemisphere that lives in liberty and trades in freedom. The overarching goals of the FY 2004 assistance program are increasing trade and investment and supporting fragile democratic institutions. Initiatives that build trade capacity, address systemic corruption, and broaden education for competitiveness will position the nations of the region to make extraordinary progress. In FY 2004, USAID will augment ongoing support for programs that are unique for advancing sub-regional development. At the same time, USAID will maintain and in some instances increase country-specific support levels for programs and initiatives that support economic growth, and further promote partnerships under the Global Development Alliance.

The regional proximity of LAC and close social and cultural ties with the United States, the commitment of regional leaders to enter into the FTAA by 2005, and President Bush's offer to explore a free trade agreement with Central America are key factors pointing to the substantial potential for increased trade and investment. In a global economy, trade and investment are the twin engines of economic growth and play an essential role in reducing poverty. Increased trade and investment in Latin America and the Caribbean, where economic growth rates were anemic in the 1990s and continue to lag, is particularly vital. USAID activities will continue to build trade-negotiating capacity, promote competitiveness, develop markets, and provide assistance for business development. Programs will assist with complying with the "rules of trade" such as sanitary/phytosanitary measures, customs reform, and Intellectual Property Rights. Support for legal, policy, and regulatory reforms will improve the climate for trade and investment. Recognizing that remittances constitute a potentially large source of development finance, USAID will continue to support and implement mechanisms for remittance transfer with lower transfer costs. Innovative development finance will continue, including the use of remittances. Assistance will expand in the area of commercial/contract law, and property rights. LAC will continue to build on its successful efforts with promoting rural economic diversification and competitiveness, including non-traditional agricultural exports and access to specialty coffee markets. Business development and marketing services will help small and medium farmers and rural enterprises improve competitiveness and tap new markets.

USAID assistance has catalyzed progress on many environmental fronts. Assistance to Mexico has resulted in greater institutional capacity for managing forest fires which have threatened large areas along the border with the United States in the past. In Bolivia and Brazil, USAID support has led to the sustainable management of millions of acres of tropical forests for manufacturing environmentally certified hardwood products and as a source of renewable energy. This has led to increased private investment in the sector and created many jobs. Environmental audits supported by USAID have led many LAC countries to adopt policies and procedures to maintain

the integrity of their coastal resources and thus retain their competitiveness as prime tourist destinations. Despite successes in introducing new technologies for clean production in industry and improved management practices, the environment in LAC suffers from accelerating rates of degradation. USAID will continue to assist countries to manage climatic and environmental risks and protect the gains from trade-led growth. Programs will include disaster management and mitigation, watershed management, coral reef protection, and forest fire prevention and control.

In South America, USAID has added a trade emphasis to the Andean Regional Initiative (ARI). USAID initiated trade capacity building activities in FY 2002 and is expanding the program for trade in the sub-region in FY 2003. USAID succeeded in establishing trade linkages between small agricultural producers and buyers. Product quality and availability has improved, new economic opportunities were identified for exploiting sub-regional competitive advantages, and greater financial intermediation has been achieved. During 2002, USAID's support for rural income generation helped 17,000 Colombian families reject involvement in the illegal production of coca and poppy and produce licit marketable crops, from passion fruit to hearts of palm. To further consolidate microfinance lending, and improve supervision and regulation of institutions, USAID supported regional workshops that gathered bank supervisors from all over South America to share their respective policies and regulatory frameworks. Such efforts build on previous USAID programs to increase access of small business people to financial markets. The results have been impressive. In Ecuador, USAID support to the Superintendency of Banks resulted in a new microfinance regulatory framework, and after six months of support, the number of small businesses served by Ecuadorian financial institutions increased by 25%. Together, these efforts directly support the broader U.S. foreign policy goals of enhancing political stability, addressing widespread poverty, consolidating gains in democratic institution-building, trade expansion and employment creation, and improved natural resources management.

In Central America and Mexico, USAID will continue the Opportunity Alliance (formerly the Partnership for Prosperity), emphasizing trade-led rural competitiveness through diversification and penetrating agricultural niche markets. The alliance was initiated in FY 2002, in response to the protracted drought, collapse of coffee prices and retrenchment of seasonal agricultural workers. The sub-region must overcome an economic downturn and the after effects of major natural disasters, and address environmental risks. An estimated 52% of the population, more than 14 million people, is poor and chronically food-insecure in Guatemala, Nicaragua, El Salvador, and Honduras. USAID activities in FY 2003 and FY 2004 will continue to support democratic governance, trade and employment creation, agricultural production, sound environmental management, and training.

For the Caribbean, USAID has added a trade component to its Third Border Initiative (TBI) efforts to strengthen trade capacity, and competitiveness of Caribbean countries. It will build on modest trade activities underway for several years in the sub-region, characterized by small island economies lacking income diversification. When launched in 2002, TBI aimed to strengthen political, economic and security ties with the Caribbean. The majority of interventions and bulk of funding thus far have supported USAID's HIV/AIDS program. With additional funding in FY 2004, TBI will provide trade negotiation-related support and training to assist governments, civil society, and the productive sectors to better understand and prepare for global and regional trade. Also, the program will support competitiveness and diversification efforts using approaches that respond to market forces in order for small producers to establish business links and market arrangements.

For Cuba, in accordance with the President's Initiative for a New Cuba announced in his landmark speech of May 20, 2002, USAID will expand its assistance to bring Cuba into the Hemisphere's community of democracies and generate rapid and peaceful change within Cuba. The additional support will enable American nongovernmental groups to facilitate meaningful humanitarian assistance and democratic outreach to the Cuban people, build Cuba's independent civil institutions, and establish scholarships in the US for Cuban born students and professionals.

The underlying dynamics of democratic progress are still holding in Latin America. Hemispheric commitment remains high, with the creation of the OAS Democracy Charter and agreement to an

ambitious democratic reform agenda at each Summit of the Hemisphere's leaders. So far, democratic systems have persisted even in the face of severe economic crisis and very weak governance—indeed, even in situations with virtually no effective governance. The political crises of Colombia, Venezuela, Argentina, Ecuador, Nicaragua, and Peru—all very different—have not yet caused permanent ruptures in democratic practices. They nonetheless demonstrate the fragility of institutions, and the need to strengthen the building blocks of democracy if the progress of the past two decades is not to be undone. USAID support under the Democracy, Conflict, and Humanitarian Assistance pillar will reinforce linkages between good governance and the rule of law, with economic growth and trade. Markets and trade are the most powerful tools for stimulating economic development and investment flows. USAID will emphasize administration of justice, commercial and contracts law, property rights, and related legal and regulatory reform. Anti-corruption strategies will emphasize prevention as part of attacking weak governance, the justice system, political institutions, and public sector management and transparency. Higher levels of corruption are associated with lower growth and lower levels of per capita income. Since corruption increases the cost of doing business, failure to act will seriously threaten the benefits likely to accrue through the FTAA. Corruption also diverts resources away from service provision and limits economic opportunity for the poor. Thus it is also a major contributor to the failure of expectations and popular dissatisfaction that, as in the recent case of Argentina, can put democratic governments at risk. Strengthening local governments is also fundamental to USAID support.

In the area of conflict, USAID will continue to emphasize programs that de-escalate violence in Colombia and promote a basis for lasting peace; prevent spillover threats by drug-induced violence along its northern border with Panama and its southern border with Ecuador; cement border agreements such as those between Peru and Ecuador; mitigate border and bi-national tensions such as those between Haiti and the Dominican Republic; bring to a completion efforts to support the peace processes in Central America; and address problems with personal security and criminality, often linked with political actors. Important community policing efforts will continue in El Salvador and Jamaica, and possibly Colombia, Guyana, and Peru.

In education, USAID will continue to provide support for improving the environment for education reform, enhance the skills of teachers and administrators, and improve the relevance and skills of the workforce. USAID will also continue support to the newly launched sub-regional programs under the Centers of Excellence for Teacher Training (CETT) initiative announced by Presidential Bush in April 2001. Established in Peru, Honduras, and Jamaica, the three sub-regional training facilities will improve the cadre of teachers in 23 LAC countries and advance education policy reform in key countries. Advancements at the secondary level and in faculty and workforce training will improve the quality of instruction, increase worker productivity, and help youths prepare for entering the workforce. In addition to the CETT Presidential Initiative USAID will dedicate resources to continuing specific successful primary education programs, education sector policy reform efforts, literacy programs for disadvantaged youths, and work force development. In particular, USAID's Training, Internships, Exchanges, and Scholarships (TIES) program in Mexico will promote an enhanced capacity of Mexican scholars and institutions to respond to the objectives and strategies of NAFTA and the Partnership for Prosperity, which defines the emerging U.S.-Mexico Common Development Agenda.

Improving health is an excellent development investment, especially in the LAC region, where there are functioning institutions with which to work, and where assistance benefits from economies of scale due to linguistic and cultural cohesion. Under the Global Health pillar, special attention will continue to focus on the prevention of HIV/AIDS and other infectious diseases. Due to the increasing pace of migration and travel between the United States and LAC countries, infectious disease issues, including HIV/AIDS, are of special concern to USAID. To combat HIV/AIDS, major funding will be allocated to the LAC countries at greatest risk, Honduras, Dominican Republic, Haiti, and Brazil. Funding is also included for Mexico, Guyana, Jamaica, Bolivia, and the two regional programs in Central America and the Caribbean. Programs will continue to combat infectious diseases, most notably tuberculosis in Mexico, the Malaria Amazon Basin Initiative, and anti-microbial resistance. Support will also be provided to maternal health,

child survival, and reproductive health activities through increased access to selected services; increased efficiency and equity of basic health services, especially at decentralized levels; and reforms related to decentralization, strengthening of health care, and setting quality standards. Support for critical food security interventions will target geographic areas of greatest malnutrition and poverty, particularly in Central America.

USAID has succeeded in establishing public-private alliances, demonstrating the powerful effect of leveraging private sector resources. USAID will expand its existing alliances in LAC including the specialty coffee programs and coral reef conservation programs in Central America, the Certified Forests and International Markets Alliance, and remittance activities. USAID will also continue to explore a wider circle of partners who are willing to cooperate in risk sharing.

**Program and Management Challenges:** USAID seeks to place the highest importance on management efficiency. In the LAC region, USAID has embarked on a series of mission management assessments which are attempting to examine mission portfolio management and structure so as to identify best practices and efficiency, and thus maximize program impact in a constantly shifting mix of development challenges. These assessments take a multi-disciplinary approach in reviewing a variety of factors, including strategic focus, organization structure, portfolio management, and staffing size and mix. These assessments provide a more complete picture for basing decisions on appropriate staff size and OE levels. The urgency of finding more efficient ways to deliver foreign assistance is due both to the multiple pressures on the Agency's OE budget and the need to staff up in priority areas, such as HIV/AIDS, trade, and expanding programs like Mexico and Colombia. To date, these assessments have identified economies of scale that can be achieved through managing selected programs or functions at the sub-regional (rather than the bilateral) level. In specific missions, the findings have informed senior USAID management decisions on how best to reduce vulnerabilities, increase efficiencies, and set program implementation mechanisms to best utilize available OE and staffing resources.

**Other Donors:** In the Andean countries where combating illegal drug production is a top priority, the United States is the largest bilateral donor with \$611 million followed by Japan, at \$246 million. However, in the two non-Andean countries assisted by USAID, Brazil and Paraguay, Japan is the largest donor at \$263 million followed by Germany at \$51 million. In Central America including Mexico, the United States was the largest donor at \$459 million followed by Spain at \$493 million. In the Caribbean the United States is the largest donor at \$109 million followed by the EU at \$80 million. All figures are for 2001. USAID continues to collaborate with other prominent donors including the Inter-American Development Bank (IDB), the World Bank (WB), the Pan American Health Organization (PAHO), and the Organization of American States (OAS).

**FY 2004 Program:** USAID FY 2004 resources requested for the LAC region total \$839,768,000. Of this amount, \$244,862,000 is Development Assistance (DA), \$148,572,000 is Child Survival and Health (CSH), \$86,000,000 is Economic Support Funds (ESF), \$259,400,000 is Andean Counterdrug Initiative (ACI), and \$100,934,000 is P.L. 480 Title II.